



REVENUE ANALYSIS

January 2016

I. Introduction

The Bikeways, Trails, Parks and Recreation Master Plan (Master Plan) will provide policy direction and financing strategies to be implemented by the Community Services Department and the Public Works Department. The Community Services Department is responsible for operation and maintenance of city facilities, while the Public Works Department is responsible for the management of the City's Capital Improvement Program. There are two divisions of the Community Services Department that operate, maintain or manage facilities that are relevant to the Master Plan (see **Table 1**). In some instances, these facilities are also revenue sources.

TABLE 1. DIVISION FACILITIES AND RESPONSIBILITIES RELATED TO THE MASTER PLAN

Recreation and Community Services Division Operates	Maintenance Division Maintains
<ul style="list-style-type: none"> – Centennial Recreation Center – Aquatics Center – Outdoor Sports Center – Community and Cultural Center – Amphitheater – Community Playhouse – Friendly Inn Non-Profit Service Center, Skate Board/BMX Park 	<ul style="list-style-type: none"> – 470 Open Space/Park Acres – 149 Street Miles – 125 Sidewalk Miles – 8 Trail Miles – 3700 Street Lights – Urban Forestry, and – Landscaping Assessment District – Downtown Streetscape and Parking Structure

II. Funding Framework

In general, funding for the Community Services Department comes from four primary sources:

- 1) User Fees;
- 2) Park Maintenance Fund;
- 3) General Fund;
- 4) Street Maintenance Fund; and
- 5) Special Assessments.

As described below, each division relies on different funding sources to defray the cost of services and capital improvements. Changes in these funding sources could impact future services.

RECREATION AND COMMUNITY SERVICES DIVISION

The Recreation and Community Services Division (RCSD) has been able to recover nearly 100% of its direct cost of services from users. This remarkable achievement has enabled RCSD to fund programs, services, and facility maintenance, including several one-time capital projects. In recent budgeting exercises, the RCSD has placed emphasis on maintaining facilities, supporting partner organizations, enhancing support for senior services, and increasing community outreach and participation in recreation programs.

The RCSD has recently focused on broadening the reach of its programs to underserved residents. Resources dedicated to some of these areas have resulted in slightly lower percentage of direct cost recovery than in past years.

MAINTENANCE DIVISION

Park maintenance is primarily funded through the Park Maintenance Fund, supplemented by transfers from the General Fund, grants, donations, and fees collected from a Landscape and Lighting Assessment District (LLAD). The Park Maintenance Fund receives revenue through voluntary contributions from developers competing in the City's Residential Development Control System. The base budget for Park Maintenance is \$920,000. The Park Maintenance Fund receives approximately \$200,000 annually from the City's General Fund to support Park Maintenance. This annual transfer ensures that the Park Maintenance Fund will be sustainable over the next 20 plus years.

In the last four years, the LLAD managed by the Maintenance Division has generated \$175,000 per year on average. These funds are specifically used to maintain parks and landscaping areas within the assessment district. The LLAD has a number of different sub areas for which funds are managed independently (as required by law). The assessment in each of these areas can only be raised through a vote of those living in the specific sub area. This funding system has provided for adequate maintenance in some areas and inadequate maintenance in others.

Maintenance of parks, streets and city buildings is managed by a core team of twelve full time staff members who heavily rely on contractors and seasonal temporary employees to provide cost-effective and flexible maintenance as needed.

III. Revenue

As shown in **Table 2**, membership and program services provide the largest percentage of revenue for the RCSD. Following the opening of the CRC, membership grew each fiscal year until 2013 when membership started to plateau as the facility reached its occupancy load limit. This funding source is dependent on attracting and retaining members and daily customers. Periodic fee increases are now utilized to increase revenues to cover normal inflationary increases in costs.

If growth has peaked, it will be increasingly important to retain the existing customer base through member engagement initiatives, updated programming and providing well maintained facilities and equipment.

TABLE 2. REVENUE

Revenue	2013/14	2014/15	2015/16
Membership			
AC/CRC Membership	\$3,628,547	\$3,838,000	\$4,060,057
Recreation Programs	\$385,163	\$388,482	\$470,368
AC/CRC Daily & Seasonal Passes	\$393,090	\$406,500	\$490,500
Aquatics Programming	\$408,792	\$416,000	\$427,000
AC/CRC Retail/Concessions	\$58,041	\$63,000	\$64,660
Subtotal	\$4,873,633	\$5,111,982	\$5,512,585
Facilities			
Room Rentals	\$253,901	\$265,900	\$276,000
Gavilan College Lease	\$221,692	\$242,000	\$205,000
OSC Concessionaire Agreement	\$65,075	\$66,000	\$66,000
Playhouse Lease and Rentals	\$40,846	\$38,000	\$41,000
Park/Field/Tennis/Special Events	\$37,904	\$36,300	\$37,420
AC Lane Fees	\$65,408	\$50,000	\$50,000
Council Chamber Rental	\$0	\$29,250	\$50,000
Subtotal	\$684,826	\$727,450	\$725,420
TOTAL	\$5,558,459	\$5,839,432	\$6,238,005

AC: Aquatics Center

CRC: Centennial Recreation Center

IV. Expenses

The two divisions of the Community Services Department described above are responsible for operations and maintenance costs relevant to the Master Plan. **Table 3** provides a summary of these expenses for fiscal years 2013/14 – 2015-16 (as of October 2015).

TABLE 3. OPERATING EXPENSES

Expenses	2013/14	2014/15	2015/16
2140 - Membership and Program Services	\$4,512,262	\$4,815,751	\$5,093,862
2150 - Facility Services Total	\$1,022,644	\$1,243,760	\$1,165,700
2180 - Community Services Total	\$119,985	\$393,058	\$575,074
8030 - Park Maintenance Total	\$444,538	\$1,030,008	\$920,767
5460 - Downtown Maintenance Total	\$38,180	\$30,500	\$104,156
6100 - Street Maintenance Total	\$1,829,648	\$2,856,278*	\$1,906,471
8351 - Lighting and Landscape District Total	\$158,908	\$178,114	\$185,541
8063 - Open Space Total	\$142,426	\$126,443	\$979,706
Total	\$8,268,591	\$10,673,912	\$10,931,277

*One-time increase in expenses related to Citywide LED light installation.

Of the operating expenses, the first three lines in **Table 3** (community, facility and membership and program services) are almost entirely covered by operating revenue. **Table 4** summarizes the city's success in recovering these operating expenses.

TABLE 4. COST RECOVERY

	2013/14 Actual	2014/15 Amended	2015/16 Adopted
RCSD Revenue	\$5,688,653	\$6,004,298	\$6,391,235
RCSD Expenditure	\$5,654,891	\$6,435,798	\$6,834,635
Transfers In	\$33,000	\$50,000	\$60,000
RCSD Net Impact	\$66,762	-\$384,500	-\$383,400
% of Total Discretionary Budget	-0.3%	-1.8%	-1.6%

Capital facility maintenance, particularly park and street maintenance, are difficult to fund with user fees and represent costs that exceed the City's ability to cover with operating revenue. The November 2014 Infrastructure Report for Morgan Hill estimates that there is a \$586,000 annual maintenance funding shortfall for park maintenance, \$88,000 for the landscape and lighting assessment district (LLAD) maintenance, and \$467,200 for building and facility maintenance. There is also a \$4,447,000 shortfall for street maintenance, but only a small portion of the shortfall is attributable to parks and recreation (bicycle) facilities. **Table 5** estimates the annual shortfall in repair and replacement of parks related facilities.

TABLE 5. ANNUAL REPAIR AND REPLACEMENT DEFICIENCIES

Expenses:	2013/14
City Parks	\$548,342
City Trails	\$37,429
Landscape Assessment District Parks	\$88,126
Aquatics Center	\$147,964
Centennial Recreation Center	\$139,823
El Toro Youth Center	\$6,620
Outdoor Sports Center	\$172,793
Total	\$1,141,097

It is important to note that LLAD facilities are funded by a select set of residents but are available for use by the entire community. Equity issues and assessment limits make it unlikely that funding deficiencies can be addressed in individual LLADs and will likely become an issue for the City to address.

V. Trends

From fiscal year (FY) FY 2012/2013 through FY 2015/2016, RCSD operations generated total revenue of \$23,667,039 for the City. Though fees and expenses fluctuate annually (see **Table 5**), revenue and expenses have been steadily increasing.

TABLE 5. CAPITAL REVENUE AND EXPENDITURE (FY 12/13 – FY 15/16) ¹

	RCSD Rev ²	RCSD Exp ³	Transfers In	Total
2012-2013	\$ 5,582,853	\$ 5,487,314	\$ 115,637	\$ 211,176
2013-2014	\$ 5,688,653	\$ 5,654,891	\$ 33,000	\$ 66,762
2014-2015	\$ 6,004,298	\$ 6,452,570	\$ 50,000	\$ - 398,272
2015-2016	\$ 6,391,235	\$ 6,834,635	\$ 60,000	\$ - 383,400
TOTAL	\$ 23,667,039	\$ 24,429,410	\$ 258,637	\$ - 503,734

Source: City of Morgan Hill, FY15/16, Operating and CIP Budget

VI. Forecasting

The City has enjoyed significant success in recovering direct costs of services through user fees. Revenue has been adequate to address operating costs, including general maintenance, but not capital facility maintenance costs or larger capital improvement and replacement costs. Due to the popularity of recreation facilities and programs, revenue generation is expected to remain high for the foreseeable future.

As facilities age, the City may experience additional demand for “one-time” investments, such as mechanical equipment, roofs, and other high-cost items. In the future, community needs may generate demand for new facilities or upgrades to existing facilities that will contribute to the maintenance funding shortfall. While revenue has historically been adequate to address operating expenses, in the future the need to address deferred maintenance and to pay for maintenance of new capital facilities will require funding from new sources.

¹ Table 5 reflects comprehensive revenue and expense as compared to Tables 2 and 3 that summarize primary revenue sources and expenses.

² Recreation and Community Services Team Revenue.

³ Recreation and Community Services Team Expenditure.

While community expectations of park and recreation services continue to increase, economic and political conditions make dependable funding streams increasingly fragmented. No single funding source is likely to provide all of the resources required to fund a complete parks and recreation program. The City should explore additional funding sources to address facility and service demands.

Table 6 indicates which sources are eligible for capital improvement and maintenance costs.

TABLE 6. FUNDING SOURCES AND USES

Sources:	Uses	
	Capital Facilities	Maintenance
General Fund	X	X
Quimby Act Dedication and Fees	X	
Development Impact Fees ⁴	X	
Voluntary Developer Contributions ⁵	X	X
Sales and Special Taxes	X	X
User Fees ⁶	X	X
Finance (Districts or Special Assessments)	X	X
Bonds	X	
Partnerships	X	X
Grants	X	X
Allowed Use	Limited Use	Ineligible Use

Some of these sources require voter-approval (e.g. special taxes, assessment districts and bonds). Special taxes may include a parcel tax, sales tax, and construction and conveyance tax. Similarly, bond funding may be secured through general obligation bonds, revenue bonds, or limited tax bonds issued by the City, or through the creation of special districts to finance improvements that benefit contributing properties. A more detailed description of existing and potential revenue sources can be found in **Appendix A**.

⁴ Though similar to Quimby Act Fees, Development Impact Fees under the Mitigation Fee Act are separate and are subject to different regulations.

⁵ Collected through the Residential Development Control System Process.

⁶ User fees may be used for capital improvements on a limited basis.

At some point, the City will need to address deferred maintenance and will likely need to fund new capital improvements or reinvest in existing facilities. Existing revenue sources are not adequate to address these expenses. Because the most promising funding options (e.g. special taxes, assessment districts or bonds) require voter approval, the City should assess the community's tolerance for these funding options. Similarly, the City should explore community tolerance for increased user fees to adequately fund a "sinking fund" that can pay for maintenance and replacement costs.

Appendix A: Existing and Potential Revenue Sources

GENERAL FUND

The General Fund is comprised primarily of tax dollars, intergovernmental revenues and user fees and charges. Bikes, trails and park and recreation facilities and services are among the many local government services competing for limited General Fund dollars. General Fund allocations can support parks and recreation improvements and services that represent general benefit to all citizens of the jurisdiction. An advantage to General Fund allocations is that they are unrestricted, however the City budget is often strained to support public safety, public works and all other local government services, as well as parks and recreation. As a result, funds are often unavailable to adequately support bike, trail, and park and recreation services.

PARK DEDICATION FEES / IMPACT FEES (QUIMBY ACT)

Quimby Act dedications and development impact fees are primary mechanisms for the development of new parks and recreation facilities. Current impact fees do not reflect the costs to construct the required community and neighborhood parks and do nothing to defray operational costs.

The Quimby Act (Section 66477 of the California Government Code) grants cities and counties the authority to require the dedication of land or payment of fees in lieu thereof (or a combination of both) by a new residential subdivision. The City can require such a dedication at the parkland Level of Service standard that was in effect at the time of adoption of the ordinance, to a maximum of 5.0 acres per 1,000 people. The City of Morgan Hill currently employs a park land standard of 3.0 acres per 1,000 people. Revenues generated through the Quimby Act cannot be used for operation or maintenance of park facilities. The park or facility must not be intended to make up an existing deficit, but must serve the new residents of the subdivision in question.

DEVELOPMENT IMPACT FEES / PARK IMPACT FEE

Development impact fees cannot be used to address existing deficiencies in park acreage, and sports and community facilities and can only be used to address development related demand for facilities. The funding for deficiencies will need to be addressed via General Fund, grants, special financing districts or bonds.

Fees can be collected from developers to pay for the impact that their residential development will have on existing infrastructure or in creating the need for new infrastructure such as roads or parks. Such fees are required as conditions of approval of a proposed development under the city's police powers over land use. Typically these fees are paid prior to City approval of a parcel map or final map or at the time a building permit is issued. Some Bay Area jurisdictions now impose fees on any improvements anticipated to increase the number of residents likely to reside in a dwelling unit, including residential additions, remodels and renovations.

Development impact fees may be reasonably exacted on new non-residential development in a City, as it may increase the daytime population resulting in additional facility users. A nexus study should be conducted to quantify such a relationship in order to justify fees on the non-residential development.

Section 66000 (et seq) of the California Government Code requires the agency exacting the fee to do the following:

- Identify the fee's purpose
- Identify the fee's uses
- Establish a reasonable relationship between the fee's use and the type of development project on which the fee is imposed
- Determine whether there is a reasonable relationship between the need for the public improvement and the development project on which the fee is imposed
- Justify that the fee is "roughly proportional" to the impact a new development has on public facilities and services (i.e. parks and community centers)

SALES AND SPECIAL TAXES

Taxes may, with voter approval, be increased to provide revenue for, among other things, parks and recreation or land conservation purposes. The ability to raise funds through sales or use taxes requires approval by two-thirds of voters. Many communities throughout the state have been successful in getting voter support for measures that add one-fourth or one-half cent to local sales taxes. The following are brief descriptions of the most common funding sources.

- 1) Parcel Tax: A parcel tax is either based on a flat per-parcel rate, calculated on the use, size and/or number of units on each parcel or an asset valuation. A parcel tax requires approval by two-thirds of city voters.
- 2) Sales Tax: Cities can generate revenue by increasing the 7.5% state sales tax to increase the general fund or to fund a specific purpose (e.g. parks and recreation). A sales tax increase dedicated to a specific purpose requires approval by two-thirds of city voters.
- 3) Real Estate Transfer Tax: A real estate transfer tax, is levied when there is a transfer of real property and when residential, commercial and industrial construction occurs. Adoption, and any increase or changes to a real estate transfer tax requires approval by two-thirds of city voters.

FEES AND CHARGES

Cost recovery through user fees is typically only used to offset General Fund maintenance and operations costs. Fees and charges create a direct connection between the funding source and the beneficiary of the service. This is a widely accepted way to provide services, however fees and memberships can keep lower income residents from participating in recreation programs. Equity concerns may be addressed when developing a pricing system to ensure that the City is providing its core services to all citizens.

TABLE A.1. TYPE OF RECREATION AND PARK FEE

Types of Recreation and Park Fees		
Fee Type	Description	Example
Entrance/ Parking	Charges to enter a developed recreation site at the patron's first contact with the area; the area may contain facilities or activities for which fees are charged	Large parks, gardens, wildlife preserves, historical areas.
Admission	Charges to enter a building, structure or natural chamber where entry and exit are controlled and attendance is regulated.	Museums, historical buildings.
Programs	Charges for participation in an activity.	Lessons, camps, classes, leagues.
Sales	Revenues obtained from stores, gift shops, restaurants and other retail	Food and drink items, catering service, souvenirs, firewood, film, clothing.

Types of Recreation and Park Fees		
Fee Type	Description	Example
	operations and from the sale of merchandise and other property.	
Permit/ License	Charges for written permission to perform an action or the authority to occupy space or use property.	Show permits, alcohol permits, photography permits.
Rental	Charges for the exclusive use of tangible property of any kind.	Bicycles, tables, golf carts, picnic kits, horses, party rooms.
Facility Use	Charges for the shared use of a facility.	Driving range, campsites, ball fields, swimming pools, ice rinks, green fees.
Special Service	Charges for supplying extra articles, materials, activities, or services as an accommodation to the public.	Seasonal equipment, storage, night lighting, field dragging and lining, class materials, reservation fees, franchise fees for league operations, electric use fees, room set-up/tear down fees.

SPECIAL FINANCING DISTRICTS (SFD)

Special financing districts and bonds require a public vote and typically would be associated with specific projects for which there is strong support in the community. Special Taxes and Special Assessments are two types of special financing districts (SFDs). They are property-based revenue mechanisms used by local governments to finance projects, maintenance or services. They are valued as focused local sources of funding with direct accountability, i.e. those who benefit from the service or infrastructure are those who pay. In general, it is assumed that the beneficiary of any improvements should pay in proportion to their property benefit. In determining the appropriateness of an SFD the following issues should be carefully considered:

- Fairness and equity
- Market sensitivity
- Potential for approval
- Timing and predictability of revenues and expenses (and need for debt)
- Legal perspective

Specialized professionals including Special Tax Consultants, Public Relations Professionals, Financial Advisors, Underwriters, Attorneys or Bond Counsels can be engaged to facilitate the creation and

success of a new SFD. While there are many types of SFDs, two common examples are discussed below.

- **Landscape Maintenance Districts (LMDs):** Special assessments are levied against a parcel of land for the benefit that is generated by the underlying public service or improvement project. Examples are Landscape Maintenance Districts used to pay for annual maintenance costs of a park. The governing body of the entity levying the assessment must make a finding of Special Benefit in order to validate this process. Special Benefit is defined as “a particular and distinct benefit over and above general benefits conferred on real property located in the district or to the public at large.” General benefit is available to the public, and therefore cannot be charged to property owners. These districts are typically formed to fund maintenance of neighborhood parks serving the neighborhood being assessed.
- **Mello-Roos Community Facilities Districts:** A Special Tax is a financial charge that is levied annually on a property for a defined period of years. The Special Tax is calculated via some type of formula or, in the case of a Community Facilities District, a Rate and Method of Apportionment. A Community Facilities District (CFD) is a common type of Special Tax District used for funding ongoing maintenance services, capital projects, or both. It is allowed under the Mello-Roos Community Facilities Act of 1982 and is found in California Government Code Section 53311 et seq. Any new Special Taxes must be approved by a two-thirds vote. Accountability measures designed into the Special Tax may increase the likelihood that voters will approve a tax. Such measures might include a citizen’s oversight committee or a sunset clause (a date by which the tax expires).

GENERAL OBLIGATION BONDS

General obligation bonds are paid by an earmarked increase in property tax above the one percent allowable by Proposition 13. Referred to as “property tax overrides,” they require a two-thirds voter approval and usually appear on the tax bill as “voter indebtedness.” The tax is levied for a specified period of time (from 10 to 40 years). The proceeds from General Obligation Bonds can be used to finance the acquisition, construction and improvement of real property, but cannot be used to pay for equipment, supplies, operations or maintenance costs. Use of such bonds has declined, due to the high approval requirement and the interest costs.

PARTNERSHIPS

Partnerships provide a variety of opportunities to share facilities, skills and resources, provide free or low cost labor, and supplement revenues. Potential partners range from sports groups, social service agencies, youth and church groups, to businesses, police departments and school districts.

- **Support Foundations & Friends Groups:** Citizens can come together to create non-profit organizations to support a park or facility. They can raise money, sponsor projects and provide volunteer support. Adopt-A-Park and Adopt-A-Trail are two ways for community members to support facilities that are important to them. Clear agreements should be developed between the municipality and community groups to clarify what the group is responsible for, e.g. watering, weeding, litter pick-up. A sign at the facility indicating who has “adopted” it recognizes their contribution and creates goodwill.
- **School Districts:** Joint-use agreements with schools can significantly expand available recreation facilities, such as ballfields, soccer fields, gymnasiums and program classrooms. They have the potential to create synergies that benefit both parties.
- **Private Sector Partnerships:** When approaching potential private sector partners it is important to present how involvement can be beneficial to them. Corporate donations to public recreation and park agencies are attractive to corporations because of the tax advantages and public relations benefit. There are a wide variety of partnerships, including:
 - volunteer labor
 - sharing of training and expertise
 - loaned equipment (vehicles, A.V. equipment, printing)
 - loaned space
 - donations of used furniture, supplies and equipment
 - shared parking
 - financial donations
 - land donations
 - sponsorships
 - scholarships
 - endowment/revolving fund
 - advertising
 - corporate team challenges

GRANTS

Federal, state, county and public and private foundation grants are available to parks and recreation agencies. Grants often require matching funds. A number of grants, along with money raised through a capital campaign, may be required to fund one project. Grants most often finance planning, acquisition and development of park and recreation areas and facilities.

Competition for grant funding can be very intense. While capital development staff monitors common grant funding sources, application time tables and source financing are always in flux making it difficult to stay current with available grants.